

Message Text

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FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 6718

INFO USMISSION USBERLIN

AMEMBASSY BERLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY MOSCOW

C O N F I D E N T I A L SECTION 01 OF 03 BONN 18961

E. O. 11652: GDS

TAGS: EAIR, WBS GW, US, UK, FR

SUBJECT: THE INTERNAL GERMAN SERVICES (IGS): AN
ANALYSIS

REF: STATE 252944

1. THERE FOLLOWS A SUMMARY ANALYSIS OF THE INTERNAL GERMAN AIR SERVICES (IGS) COVERING THE PERIOD 1971-74 AS REQUESTED IN REFTEL FOR USE IN US/UK CONSULTATIONS. THIS MATERIAL HAS BEEN COORDINATED WITH THE BRITISH CAA AND WITH USBER OFFICERS.
2. IGS PASSENGER VOLUME. SINCE CALENDAR YEAR 1971 WHEN IGS PASSENGER VOLUME REACHED A PEAK OF 5.5 MILLION, TRAFFIC HAS DECLINED ANNUALLY TO A TOTAL OF 3.9 MILLION IN 1973, OR BY 29 PERCENT. CONTRASTING THE FIRST NINE MONTHS OF 1974 WITH THE COMPARABLE PERIOD FOR 1971, PASSENGER VOLUME SHOWS A DRAMATIC DECLINE FROM 4.2 MILLION TO 2.7 MILLION. PROJECTIONS
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AT THE CURRENT RATE OF DECLINE INDICATE THAT THE TOTAL

FOR 1974 EXPECTED TO FALL TO 3.5 MILLION OR LOWER. IN REVIEW-
ING BERLIN PASSENGER TRAFFIC FOR ALL TRANSPORT MODES
(SEE BERLIN AIRGRAM DATED 11/17/74), IT IS APPARENT
THAT THE QUADRIPARTITE AGREEMENT (QA) AND THE CONSE-
QUENT INCREASE IN THE USE OF SURFACE TRANSPORT BY
BERLINERS HAS BEEN THE OVERWHELMINGLY DOMINANT CAUSE
FOR THE DECLINE IN IGS TRAFFIC. FOR EXAMPLE, IN 1971
AIR TRAFFIC (INCLUDING CHARTER) ACCOUNTED FOR 44 PER-
CENT OF TOTAL BERLIN PASSENGER MOVEMENTS. BY 1973,
THIS FIGURE HAD FALLEN TO ABOUT 27 PERCENT AND BY THE
FIRST NINE MONTHS OF 1974 THE PERCENTAGE ACCOUNTED FOR
BY AIR HAD DECLINED TO 24 PERCENT. ON A YEAR-TO-YEAR
BASIS, AIR TRAFFIC TOTALS FOR 1972 WERE CLOSE TO 12
PERCENT BELOW 1971, FOR 1973 THE DECLINE WAS 17 PERCENT
AND FOR 1974 (FIRST NINE MONTHS) 12.2 PERCENT. THE
IMPACT OF QA HAS BEEN, NOT SURPRISINGLY, MOST EVIDENT
WHERE THE SHORTER ROUTES ARE CONCERNED SUCH AS HAMBURG
AND HANNOVER.

IN THE FACE OF DECLINING PASSENGER VOLUME AND
ACCELERATED COST INCREASES, THE IGS CARRIERS HAVE HAD
TO INCREASE FARES FOUR TIMES TOTALING A 37 PERCENT
INCREASE IN GROSS FARES (AFTER SUBSIDY) SINCE JULY 1971.
THERE HAS BEEN NO CHANGE IN FRG SUPPORT FOR THE IGS
DURING THIS PERIOD. ALTHOUGH ELASTICITY CALCULATIONS
ARE IMPRECISE AT BEST, PAA ESTIMATES THAT THE CUMULA-
TIVE IMPACT OF THESE FARE INCREASES HAS CAUSED 25 OR
MORE PERCENT OF THE TRAFFIC DECLINE.

3. IGS MARKET STRUCTURE. DURING THE 1971-74 PERIOD,
THE DIVISION OF THE IGS MARKET BETWEEN CARRIERS HAS
REMAINED REASONABLY STABLE WITH PAA ACCOUNTING FOR AN
AVERAGE OF 62 PERCENT OF THE MAREKET AND BA FOR 37 PER-
CENT (DOES NOT INCLUDE AIR FRANCE).

COMPARATIVE SEAT FACTORS HAVE BEEN AS FOLLOWS:

	1971	1972	1973	1974
	JUNE	AUG	SEP	OCT
BA	57	49.5	48.7	50 45 54 56
PAA	66-7	60.4	54.6	56 52 61 63

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SEAT FACTORS FOR BOTH CARRIERS REACHED AN AVERAGE OF
68.4 PERCENT DURING THE SUMMER OF 1971. SINCE THAT
TIME, DECLINING TRAFFIC HAS REDUCED LOAD FACTORS TO
56.3 PERCENT IN THE SUMMER OF 1973 AND TO 50.7 PERCENT
DURING THE WINTER 1973-74. THE AIRLINES HAVE AGREED TO
REDUCE CAPACITY AND IN THE SUMMER OF 1974 ADJUSTED
AVAILABLE SEATS DOWNWARDS 12.1 PERCENT AS COMPARED
WITH THE SUMMER OF 1973. WINTER 1974-75 CAPACITY WAS

REDUCED BY 22.9 PERCENT COMPARED WITH PREVIOUS YEAR,
AND A RECENT AGREEMENT FORESEES A CUTBACK OF 14.5 PER-
CENT FOR THE SUMMER SEASON OF 1975. THE RECORD TO DATE
INDICATES THAT SOME MEASURE OF SUCCESS HAS BEEN
ACHIEVED BY BOTH AIRLINES IN IMPROVING THEIR SEAT
FACTONS (SEE TABLE ABOVE). SUCCESS IN ACHIEVING
ECONOMIC SEAT FACTORS, OF COURSE, DEPENDS ON THE

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EXTENT TO WHICH AIRLINES CAN FORECAST PASSENGER VOLUME
AND MATCH THE CAPACITY OFFERED TO IT. THUS, PAA AND
BA ARE PRESENTLY REASSESSING DOWNWARDS PROJECTED
TRAFFIC FOR 1975 WITH THE POSSIBILITY OF A GREATER
CUT IN CAPACITY.

DESPITE REDUCED CAPACITY THE IGS CARRIERS HAVE
MAINTAINED A LEVEL OF SERVICE FOR THE BERLIN TRAVELING

PUBLIC EQUIVALENT TO THE MOST FREQUENTLY SERVICED CITY PAIRS ON THE GERMAN DOMESTIC ROUTE PATTERNS (HAMBURG/FRANKFURT, MUNICH/FRANKFURT) AND SIGNIFICANTLY BETTER SERVICES THAN THOSE ENJOYED BY THE MAJORITY OF FRG CITIES. SCHEDULING ON THE IGS HAS BEEN DESIGNED FOR PASSENGER CONVENIENCE RATHER THAN FOR CONNECTIONS TO INTERNATIONAL FLIGHTS AS IS THE CASE ON THE FRG DOMESTIC ROUTE PATTERN. BERLIN, THEREFORE, REMAINS THE BEST SERVED POPULATION CENTER AMONG THOSE REVIEWED.

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AT THE SAME TIME, IGS RATES PER MILE INCLUDING SUBSIDIES REMAIN SIGNIFICANTLY LOWER THAN THOSE ON THE WEST GERMAN DOMESTIC SERVICE. AT PRESENT, GERMAN DOMESTIC RATES PER MILE ARE ABOUT 35 PERCENT HIGHER THAN IGS RATES AND WOULD STILL BE ABOUT 27 PERCENT HIGHER IF THE PROPOSED 6.5 PERCENT FARE INCREASE WAS INTRODUCED (SEE APPENDIX B OF THE PAA'S FARE INCREASE APPLICATION).

4. SUBSIDIES. THE FRG IN SUPPORTING THE POLITICAL OBJECTIVE OF PROVIDING RELATIVELY INEXPENSIVE AIR ACCESS TO BERLIN HAS SUBSIDIZED IGS PASSENGER FARES SINCE 1962. AS NOTED ABOVE, SUBSIDY LEVELS (CALCULATED ON A PER PASSENGER PER ROUTE BASIS) HAVE NOT CHANGED DESPITE SUBSTANTIAL CHANGES IN IGS FARE LEVELS, OPERATING COSTS AND PASSENGER VOLUME. AS A RESULT, FRG SUBSIDY PAYMENTS TO THE AIRLINES HAVE DECREASED "PARI PASSU" WITH THE DECLINE IN PASSENGER TRAFFIC AS ILLUSTRATED BY THE FOLLOWING TABLE:

	1972	1973
	(DM)	(DM)
PAA	48,172,000	37,938,000
BA	25,012,000	20,257,000
TOTAL	73,184,000	58,195,000

NOTE: PAA BERLIN IS WORKING ON ADDITIONAL SUBSIDY DATA WHICH WILL BE TRANSMITTED TO THE DEPARTMENT AS SOON AS RECEIVED.

SUBSIDY PAYMENTS PER PASSENGER AS A PROPORTION OF THE FARE CHARGED HAVE, OF COURSE, DECLINED MARKEDLY, THUS, THE BERLIN TRAVELING PUBLIC HAS HAD TO PAY AN INCREASINGLY GREATER PERCENTAGE OF THE TOTAL FARE.

5. INCREASE IN OPERATING EXPENSES. DURING THIS 1971-

1974 PERIOD, THE IGS CARRIERS HAVE EXPERIENCED A RAPID
INCREASE IN OPERATING COSTS WHICH HAVE ACCELERATED
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OVER THE PAST TWO YEARS. MOST DRAMATICALLY, AVIATION
FUEL PRICES SINCE THE FALL OF 1973 HAVE INCREASED BY
SOMETHING ON THE ORDER OF 220 PERCENT. COMPARATIVE
IGS FUEL PRICES IN CENTS PER GALLON ARE GIVEN BELOW:

----- ACTUAL-----		
QTR	FEB	JUL

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EXAMPLE, SINCE 1971 LANDING FEES IN THE FRG HAVE INCREASED 35 PERCENT, WHILE LABOR COSTS HAVE INCREASED BY ABOUT 50 PERCENT.

6. OUTLOOK. THE DAMPENING EFFECTS ON IGS TRAFFIC VOLUME OF THE INCREASED USE OF SURFACE TRANSPORT MODES HAS BEEN REINFORCED OVER THE PAST SEVERAL QUARTERS BY THE WORSENING ECONOMIC CONDITIONS IN BERLIN AND THE FRG. THE PARTICULARLY POOR TRAFFIC FIGURES REGISTERED IN THE 1974 SUMMER SEASON (WHEN BUSINESS TRAVEL WAS PROBABLY AT A SEASONAL MINIMUM) REFLECTED, IN THE VIEW OF BERLIN AVIATION CIRCLES, REDUCED SPENDING BY THE TRAVELING PUBLIC ASSOCIATED WITH THE GENERAL DOWNTURN OF ECONOMIC ACTIVITY. THERE IS A STRONG LIKELIHOOD, THEREFORE, THAT INCREASING UNEMPLOYMENT AND GENERAL BUSINESS UNCERTAINTY WILL CONTRIBUTE TO A CONTINUED DECLINE IN IGS TRAFFIC VOLUME AT LEAST THROUGH THE FIRST
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HALF OF 1975. TRAFFIC WILL ALSO BE FURTHER ERODED BY INCREASED FARES INsofar AS THESE ARE NOT OFFSET BY ADDITIONAL GERMAN FINANCIAL SUPPORT. THE ECONOMIC PICTURE AT PRESENT MAKES IT DIFFICULT TO DETERMINE AT THIS JUNCTURE IF THE EFFECTS OF QA ON BERLIN AIR TRAVEL HAVE BEEN FULLY EXPERIENCED. AIRLINE SOURCES ARE NOW PREDICTING A CONTINUED DECLINE IN TRAFFIC VOLUME THROUGH THE FIRST HALF OF 1975 OF SOMEWHERE BETWEEN 10 AND 15 PERCENT.

7. A COMPARISON OF BA'S AND PAA'S PENDING FARES APPLICATIONS FOLLOWS BY SEPTTEL.
HILLENBRAND

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